Attachment B

S&P Global Ratings

Research

Research Update:

Avista Corp. Ratings Affirmed; Off Watch Positive; Outlook Stable

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Rating Action Overview

- The Washington Utilities and Transportation Commission (WUTC) has denied the merger petition between Avista Corp. and Hydro One Limited (HOL).
- The WUTC's decision, in our view, significantly increases the likelihood that the transaction will not close, despite other regulatory approvals achieved from other states.
- We are affirming our ratings on Avista, and removing our CreditWatch Positive listing on the company.
- The stable outlook reflects our base-case expectation that Avista will most likely continue to operate as a stand-alone regulated utility, and that the company's funds from operations (FFO) to debt will stay at about 16% through 2020.

Rating Action Rationale

On Dec. 10, 2018, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on Avista Corp. and the 'A-' issue rating on its senior secured debt. At the same, we removed the ratings from CreditWatch with positive implications, where they were placed on June 15, 2018 (see "Hydro One Ltd. And Hydro One Inc. Placed On Watch Negative, Avista Corp. On Watch Positive Ahead Of Regulatory Approvals"). The outlook on Avista is stable.

The rating action follows the WUTC's rejection of the merger petition between Avista and HOL. Because Washington is Avista's largest jurisdiction, the WUTC's decision, in our view, significantly increases the likelihood that the transaction may not close as expected, despite other regulatory approvals achieved from other states. As such, we no longer incorporate in our base case the potential for ratings uplift on Avista as previously expected, given that Hydro One Limited is rated higher than Avista.

Our assessment of Avista's business risk profile primarily reflects its management of regulatory risk, since about 95% of the company's overall EBITDA is derived from low-risk regulated utility operations. The company is generally authorized to use various cost recovery mechanisms to help alleviate regulatory lag, but is somewhat exposed to potential excess power costs, typically tied to an earnings sharing mechanism in Washington. Our business risk assessment also incorporates our view of the company's regulatory diversity and generation mix. Avista primarily operates in Washington and Idaho; Oregon and Alaska jointly contribute less than 10% of its consolidated revenues. Moreover, the company's dependence on hydro-electric generation introduces fuel replacement risk during periods of unfavorable hydro conditions.

We assess Avista's financial risk profile under our medial volatility financial benchmark table, reflecting the company's business risk derived from its low risk regulated utility operations and average management of regulatory risk. Under our base-case scenario--including capital spending averaging about $430 million, dividends of about $100 million, periodic rate cases, and the effects of U.S. tax reform--we expect FFO to debt to average about 16% through 2020. Our base case also assumes a merger termination fee payment to Avista from Hydro One, as per the merger agreement terms, reflecting the lack of regulatory approval in Washington.

Outlook

The stable outlook reflects our base-case expectation that Avista will most likely continue to operate as a stand-alone regulated utility, and that the company's FFO to debt will stay at around 16% through 2020.

Downside scenario

We could lower our ratings on Avista during the next two years if the company shifts its strategic focus to other business activities that weaken its credit quality, or if the company's management of regulatory risk weakens, relative to our expectations. We could also lower our ratings if adverse regulatory decisions weaken the company's FFO to debt consistently below 15%.

Upside scenario

We could raise the rating on Avista if the company materially improves its financial measures, including FFO to debt that is consistently above 21%.

Company Description

Avista is a vertically integrated regulated electric and natural gas utility company. It operates through two segments, Avista Utilities and AEL&P. Avista Utilities provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho; and natural gas distribution services in parts of northeastern and southwestern Oregon. AEL&P offers electric services to approximately 17,000 customers in the city and borough of Juneau, Alaska. Overall, Avista has about 382,000 electric customers and approximately 347,000 natural gas customers.

Liquidity

We assess Avista's liquidity as adequate. We expect the company's sources to cover uses by more than 1.1x over the next 12 months even in the event of a 10% decline in EBITDA. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal Liquidity Sources
- Revolving credit facility of $400 million;
- Cash FFO of $330 million; and
- Minimal cash assumed.

Principal Liquidity Uses
- Long-term debt maturities of about $272 million in 2019;
- Assumed maintenance capital spending of $245 million; and
- Dividends of approximately $100 million.

Environmental, Social, And Governance(ESG)

With a total generation fleet capacity of over 1,800 megawatts, close to 45% of which is based on fossil-fired generation, Avista's environmental footprint is a significant risk factor, including from natural gas (35%) and coal (around 10%). This reflects the potential for ongoing cost of operating fossil units in the face of disruptive technology advances and the potential for changing environmental regulations that may require significant capital investments. In addition, the company's dependence on hydro-electric generation introduces fuel replacement risk during periods of unfavorable hydro conditions. From a social perspective, Avista's safety and health management systems processes enable it to effectively serve electricity customers across four states. Governance factors are neutral to our ESG assessment. Avista has board of directors who, in our view, are capably engaged in risk oversight, including on matters that affect the company's financial performance, regulatory relations, and environmental mandates.

Issue Ratings - Subordination Risk Analysis

Capital structure

Avista's consolidated capital structure comprises about $1.8 billion of long-term debt, most of which is secured, and about $50 million of preferred stock, issued through Avista Capital II.

Analytical conclusions

We rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends, and because it is deeply subordinated to other instruments in the company's capital structure, consistent with our criteria. The short-term rating on Avista is 'A-2', based on our long-term issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue rating, two notches above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Strong
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Avista Corp.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Watch Pos/A-2
Avista Corp.		
Senior Secured	A-	A-/Watch Pos
Avista Capital II		
Preferred Stock	BB+	BB+/Watch Pos

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.